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MEMORANDUM

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TO: Docket Control Center

2016 JAN -7 P 3:14

FROM: Thomas M. Broderick
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: January 7, 2016

RE: STAFF REPORT FOR TRUXTON CANYON WATER COMPANY, INC.'S
APPLICATION FOR AUTHORITY TO INCUR LONG-TERM DEBT.
(DOCKET NO. W-02168A-15-0369)

Attached is the Staff Report for Truxton Canyon Water Company, Inc.'s application for financing approval. Staff recommends approval of the loan. Staff further recommends that the loan amount including debt reserve and tax obligations be included in the surcharge mechanism approved in Decision No. 74835.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 11, 2016.

TMB:CSB:nr/BH

Originator: Crystal Brown

Arizona Corporation Commission
DOCKETED

JAN 07 2016

DOCKETED BY	
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Service List for: Truxton Canyon Water Company, Inc.
Docket No. W-02168A-15-0369

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

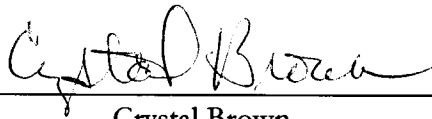
**TRUXTON CANYON WATER COMPANY, INC.
DOCKET NO. W-02168A-15-0369**

**APPLICATION FOR
AUTHORITY TO INCUR LONG-TERM DEBT**

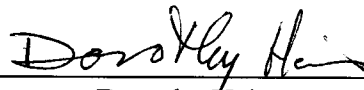
JANUARY 7, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Truxton Canyon Water Company, Inc., Docket No. W-02168A-15-0369, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the financial review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

A handwritten signature in cursive script, reading "Crystal Brown", positioned above a horizontal line.

Crystal Brown
Executive Consultant III

A handwritten signature in cursive script, reading "Dorothy Hains", positioned above a horizontal line.

Dorothy Hains
Utilities Engineer

EXECUTIVE SUMMARY
TRUXTON CANYON WATER COMPANY, INC.
DOCKET NO. W-02168A-15-0369

Truxton Canyon Water Company, Inc. ("Truxton" or "Company") is an Arizona public service corporation that provides water service to approximately 950 residential and commercial customers in the vicinity of Kingman, Mohave County, Arizona. Truxton's current rates were approved in Decision No. 74835, dated November 14, 2014.

On October 30, 2015, Truxton filed with the Arizona Corporation Commission ("Commission") a request for approval of a \$348,615 financing. The \$348,615 financing included \$259,800 for arsenic treatment plant that was approved in Decision No. 74835, dated November 14, 2014 and \$100,815 to construct a building to house the arsenic treatment plant. On December 28, 2015, the Company requested an additional \$4,000 for permitting costs associated with the new approval to construct application required by the Arizona Department of Environmental Quality ("ADEQ")¹. This increased the total financing requested by the Company to \$352,615. Staff recommends approval of \$91,150 for the combined cost of the building and ADEQ permit. Therefore, the total recommended by Staff for the financing is \$350,950 consisting of \$259,800 approved in Decision No. 74835 and \$91,150 recommended in the instant case.

Staff recommends that the WIFA loan surcharge approved in Decision No. 74835 cover both loan elements (the original \$259,800 for water treatment plant and the \$91,150 for the building and permit). Staff respectfully requests the issuance of a Recommended Opinion and Order for consideration at the Commission's February 2, 2016 open meeting, if possible.

Staff's Recommendations

Staff recommends:

1. Approval of the \$350,950 financing and that the surcharge mechanism approved in Decision No. 74835 apply to the total Staff recommended loan amount. Such surcharge mechanism may result in a surcharge of \$2.02 per month per 3/4-inch metered customer.
2. The Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
3. The Company follow the same methodology presented on Schedule CSB-3 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using the actual loan amount, interest rate and customer counts.
4. The Company make a WIFA loan surcharge filing within 15 days of the loan closing.

¹ The request was made via electronic mail.

5. The Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan and the annual income taxes related to the loan as shown on CSB-3, page 1, line 31.
6. The Company file a rate case no later than May 31, 2018 with a December 31, 2017 test year.
7. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
8. The Company notify its customers of the WIFA Loan Surcharge by means of a bill insert in the next regularly scheduled billing after the Commission's decision in this proceeding.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION.....	1
BACKGROUND.....	1
NOTICE	1
ENGINEERING ANALYSIS	1
TERMS OF PROPOSED FINANCING	2
SURCHARGE MECHANISM	2
FINANCIAL ANALYSIS.....	2
Capital Structure	3
Debt Service Coverage ("DSC")	3
CONCLUSION	4
RECOMMENDATIONS	4

SCHEDULES

Income Statement.....	Schedule 1
Financial Analysis	Schedule 2
WIFA Loan Surcharge Calculation - Example	Schedule 3

Attachment

Engineering Report

INTRODUCTION

Truxton Canyon Water Company, Inc. ("Truxton" or "Company") is an Arizona public service corporation that provides water to approximately 950 residential and commercial customers in the vicinity of Kingman, Mohave County, Arizona. Truxton's current rates were approved in Decision No. 74835, dated November 14, 2014.

On October 30, 2015, Truxton filed with the Arizona Corporation Commission ("Commission") a request for approval of a \$348,615 financing to construct an arsenic treatment plant and a building to house the plant. On December 28, 2015, the Company requested an additional \$4,000 for permitting costs associated with the new approval to construct application required by the Arizona Department of Environmental Quality ("ADEQ")².

BACKGROUND

The Commission, in Decision No. 74835, dated November 14, 2014, authorized Truxton to borrow \$259,800 from the Water Infrastructure Finance Authority ("WIFA") to pay for arsenic treatment plant. This Decision also ordered that the building that would house the arsenic treatment plant be transferred from the Neal Family Trust ("Trust") to Truxton. Decision No. 75320 amended Decision No. 74835 to remove the requirement to transfer the building from the Trust to Truxton and instead directed Truxton to construct a new building to house the arsenic treatment plant. Truxton amended its WIFA loan application to include the construction cost of this new building, estimated to be \$100,815 and \$4,000 for an ADEQ approval to construct permit.

Truxton's financing included \$259,800 for arsenic treatment plant that was approved in Decision No. 74835, dated November 14, 2014, \$100,815 to construct a building to house the arsenic treatment plant, and \$4,000 for ADEQ permits for a total of \$364,615.

NOTICE

On January 5, 2016, the Company docketed a sworn certification of mailing public notice of its financing application to its customers on or before November 30, 2015.

ENGINEERING ANALYSIS

Staff reviewed the Company's proposed \$100,815 estimated cost for the building. Staff recommends reducing the amount by \$9,665 to \$91,150 primarily (1) to remove costs that were previously approved in Decision No. 74835, and (2) to remove contractor overhead costs that were included in contingency fees. Therefore, the total that Staff is recommending is \$350,950 which consists of \$259,800 for arsenic treatment plant that was approved in Decision No. 74835 and \$91,150 for the building and ADEQ permit. A complete discussion of Staff's findings and recommendations concerning the financing application can be found in the attached Engineering Memorandum.

² The request was made via electronic mail.

TERMS OF PROPOSED FINANCING

The Company is requesting approval of a \$352,615 loan. The Company's financing application did not explicitly identify the amortization period; however, the typical amortization period used by WIFA is 20 years. Since the actual interest rate will not be known until the Company has closed on the loan, the Company stated that WIFA may offer the Company an 80 percent subsidy rate, so the effective interest rate would be Prime + 2 percent x 80 percent.

SURCHARGE MECHANISM

Schedule CSB-3 (page 1, lines 43 and 47) presents a calculation of the additional annual revenue needed by the Company to service a \$350,950 loan over 20 years at 5.25 percent interest rate for the loan. Based on Staff's calculation, \$350,950 of WIFA debt will require the Company to generate an annual cash flow of \$40,681.57 through the surcharge. Staff's calculation shows that a residential customer on a 3/4-inch meter will be required to pay a monthly surcharge of \$2.02 as shown on Schedule CSB-3, page 1, line 77.

The surcharge mechanism was approved in Decision No 74835. Staff recommends that the WIFA loan surcharge approved in Decision No. 74835 cover both loan elements (the original \$259,800 for water treatment plant and the \$91,150 for the building and permit) because the need for the building was an issue in the underlying rate case and, absent the Commission's ultimate decision in that case directing Truxton to build the facility, the need for the financing would not have surfaced.

On page 51, lines 10 through 14 of Decision No 74835, the Commission stated that 6.2 percent of the cost should be allocated to all Valley Vista Property Owners Association's (VVPOA") customers **except** the 4-inch and 6-inch customers. It further stated that 36.9 percent of the cost should be allocated to the VVPOA's 4-inch and 6-inch customers. Staff has calculated surcharges consistent with the Commission's directions. Schedule CSB-3 page 2, lines 22 thru 34 shows the surcharge for VVPOA customers on a 3/4-inch meter would be \$18.02 and for customers on a 2-inch meter would be \$96.09. Schedule CSB-3 page 2, lines 58 thru 70 shows the surcharge for VVPOA customers on a 4-inch meter would be \$416.99 and for customers on a 6-inch meter would be \$833.97.

Once the Company has closed on the loan, it would submit an application in this Docket requesting implementation of the surcharge. Staff would then calculate the appropriate surcharge and prepare and file a recommended order for Commission consideration.

FINANCIAL ANALYSIS

Staff utilized Truxton's unaudited financial statements for the year ended December 31, 2014, and made adjustments consistent with Decision No. 74835 as shown on Schedules CSB-1, Page 1. Column C of the schedule presents the Company's income statement that has been adjusted to remove purchased water expense³ and to reflect the Staff recommended and Commission approved

³ Decision No.74835, page 46, lines 22 to 24.

depreciation expense consistent with Decision No. 74835. Staff also reflected income taxes consistent with the aforementioned adjustments.

Staff's financial analysis is based on Truxton's Staff adjusted financial statements for the year ended December 31, 2014, as shown on Schedule CSB-2. Column C presents the pro forma effect of the of the \$350,150 loan. Schedule CSB-2 also shows the debt service coverage ratio and capital structure. For the purposes of its analysis, Staff has utilized an amortization period of 20 years and a 5.25 interest rate. The amortization period and interest rate are the same as those typically used by WIFA.

Capital Structure

At December 31, 2014, Truxton's capital structure consisted of no equity and no debt as shown on Schedule CSB-2, Column A, lines 56 thru 59. The pro forma effect of Truxton drawing the entire proposed loan of \$350,950 would result in a capital structure comprised of 3.2 percent short-term debt, 96.8 percent long-term debt, and 0 percent equity as shown on Schedule CSB-2, Column C, lines 56 thru 59.

Debt Service Coverage ("DSC")

The DSC represents the number of times cash flow from operations (i.e., operating income plus income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations. Discuss minimum DSC requirements.

Based on the 2014 Staff adjusted financial statements Truxton's DSC is not meaningful because the Company had no debt. The pro forma effect of fully drawing the \$350,950 loan produces a before tax DSC of 4.23 as shown on Column C, line 53. WIFA uses an after tax DSC. Truxton's after tax DSC is 3.43 as shown on Column C, line 54. The pro forma DSC shows that Truxton has adequate cash flow to meet all obligations on the proposed loan.

Staff has been in frequent consultation with the Company, the Arizona Department of Environmental Quality ("ADEQ"), and WIFA regarding the processing of this financing application. The Company is required by ADEQ to have arsenic treatment in place on or before June 30, 2016. To meet ADEQ's deadline, the Company must obtain WIFA loan approval so it can begin constructing the arsenic treatment facilities by March. WIFA has informed Staff that it is willing to consider the Company's loan application at its next WIFA Board Meeting, which is currently scheduled for February 17, 2016, provided the Commission issues a Decision approving the Company's application prior to that time.

In light of the foregoing, Staff respectfully requests the issuance of a Recommended Opinion and Order for consideration at the Commission's February 2, 2016 Open Meeting, if possible. Staff believes this request is consistent with the three docketed public comments the Commission has

received regarding this application to date. All three comments encouraged timely processing by the Commission, so that arsenic treatment could begin sooner rather than later.

The Company has indicated its willingness to file any comments it has regarding this Staff Report by January 11, 2016, and has authorized Staff to inform the Commission that it is willing to waive its 10-day exception period.

CONCLUSION

Staff concludes that the debt requested by Truxton is for lawful purposes, within the corporate powers of the Company, compatible with the public interest, compatible with sound financial practices, compatible with its proper performance as a public service corporation and will not impair its ability to perform that service.

Staff further concludes that Truxton would have adequate cash flow to meet all obligations on the debt.

RECOMMENDATIONS

Staff recommends:

1. Approval of the Staff-recommended \$350,950 financing and that the surcharge mechanism approved in Decision No. 74835 apply to the total Staff recommended loan amount. Such surcharge mechanism may result in a surcharge of \$2.02 per month per 3/4-inch metered customer.
2. The Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
3. The Company follow the same methodology presented on Schedule CSB-3 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using the actual loan amount, interest rate and customer counts.
4. The Company make a WIFA loan surcharge filing within 15 days of the loan closing.
5. The Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan and the annual income taxes related to the loan as shown on CSB-3, page 1, line 31.
6. The Company file a rate case no later than May 31, 2018 with a December 31, 2017 test year.

7. Approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
8. The Company notify its customers of the WIFA Loan Surcharge by means of a bill insert in the next regularly scheduled billing after the Commission's decision in this proceeding.

INCOME STATEMENT

Line No.		[A] Per Company Unaudited 2014 Annual Report Income Statement	[B] Staff Adjustments	REF	[C] Per Staff Unaudited 2014 Annual Report Income Statement
1	INCOME STATEMENT				
2					
3	Operating Revenue				
4	Metered Water Revenue	\$ 549,886	\$ -		\$ 549,886
5	WIFA Loan Surcharge	\$ -	\$ -		\$ -
6	Other Water Revenues	\$ -	\$ -		\$ -
7	Total Operating Rev:	\$ 549,886	\$ -		\$ 549,886
8					
9	Operating Expenses				
10	601 Salaries and Wages	\$ 122,742	\$ -		\$ 122,742
11	610 Purchased Water	\$ 183,260	\$ (183,260) A		\$ -
12	615 Purchased Power	\$ 101,314	\$ -		\$ 101,314
13	618 Chemicals	\$ 523	\$ -		\$ 523
14	620 Repairs and Maintenance	\$ 23,012	\$ -		\$ 23,012
15	621 Office Supplies & Expense	\$ 15,307	\$ -		\$ 15,307
16	630 Contractual Services	\$ 82,750	\$ -		\$ 82,750
17	635 Water Testing	\$ 1,080	\$ -		\$ 1,080
18	641 Rents	\$ 5,678	\$ -		\$ 5,678
19	650 Transportation Expenses	\$ 32,584	\$ -		\$ 32,584
20	657 Insurance - General Liability	\$ 8,654	\$ -		\$ 8,654
21	666 Regulatory Comm Exp - Rate Case	\$ 4,387	\$ -		\$ 4,387
22	675 Miscellaneous Expense	\$ -	\$ -		\$ -
23	403 Depreciation Expense	\$ 34,471	\$ (24,892) B		\$ 9,579
24	408 Taxes Other Than Income	\$ 44,037	\$ -		\$ 44,037
25	408.11 Property Taxes	\$ 28,562	\$ -		\$ 28,562
26	409 Income Tax	\$ -	\$ 16,061 C		\$ 16,061
27	Total Operating Expense	\$ 688,361	\$ (192,091)		\$ 496,270
28					
29	Operating Income	\$ (138,475)	\$ 192,091		\$ 53,616
30					
31					
32					
33					
34					
35					

A - To remove purchased water expense consistent with Decision No. 74835

B - To adjust depreciation expense consistent with Decision No. 74835. See Schedule CSB-2

C - To adjust income tax expense consistent with adjustments "A" and "B" above.

DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	(A) PLANT In SERVICE Per Staff	(B) NonDepreciable or Fully Depreciated PLANT	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	303 Land and Land Rights	20	20	-	0.00%	-
3	304 Structures and Improvements	159	-	159	3.33%	5
4	305 Collecting and Impound Reservoirs	-	-	-	2.50%	-
5	307 Wells and Springs	19,791	-	19,791	3.33%	659
6	309 Supply Mains	-	-	-	2.00%	-
7	311 Pumping Equipment	11,462	-	11,462	12.50%	1,433
8	320.1 Water Treatment Equipment	-	-	-	3.33%	-
9	320.2 Water Treatment Plant, Solution Chemical Feeders	-	-	-	20.00%	-
10	330 Distribution Reservoirs and Standpipes	-	-	-	2.22%	-
11	331 Transmission and Distribution Mains	865,257	-	865,257	2.00%	17,305
12	333 Services	64,236	-	64,236	3.33%	2,139
13	334 Meters and Meter Installations	206,069	-	206,069	8.33%	17,166
14	335 Hydrants	-	-	-	2.00%	-
15	336 Backflow Prevention Devices	-	-	-	6.67%	-
16	339 Other Plant and Miscellaneous Equipment	406	-	406	6.67%	27
17	340 Office Furniture and Equipment	-	-	-	6.67%	-
18	340.1 Computers and Software	-	-	-	20.00%	-
19	341 Transportation Equipment	-	-	-	20.00%	-
20	343 Tools, Shop, and Garage Equipment	-	-	-	5.00%	-
21	345 Power Operated Equipment	-	-	-	5.00%	-
22	346 Communication Equipment	-	-	-	10.00%	-
23	347 Miscellaneous Equipment	-	-	-	10.00%	-
24						
25	Total Plant	\$ 1,167,400	\$ -	\$ 1,167,380		\$ 38,734

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 3.32%
CIAC: \$ 878,689
Amortization of CIAC (Line 29 x Line 30): \$ 29,155
Depreciation Expense Before Amortization of CIAC: \$ 38,734
Less Amortization of CIAC: \$ 29,155
Test Year Depreciation Expense - Staff: \$ 9,579
Depreciation Expense - Company: 34,471
Staff's Total Adjustment: \$ (24,892)

Reference
Surrebuttal Schedule CSB-18
Truxton Canyon Water Company
Docket No. W-02168A-11-0363
Test Year Ended Dec. 31, 2011 Updated to Dec. 31, 2012

INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<i>Calculation of Income Tax:</i>		Test Year	
1	Revenue	\$ 549,886	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 480,209	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 69,677	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ 4,855
7	Federal Taxable Income (L4 - L6)	\$ 64,822	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 3,705	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ 11,205
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ 16,061</u>
18	Income Tax - Per Staff	\$ 16,061	
19	Income Tax - Per Company	\$ -	
20	Staff Adjustment	\$ 16,061	

FINANCIAL ANALYSIS

Selected Financial Data
Including Immediate Effects of the Staff Recommended \$350,950 WIFA Loan & Surcharge

Line No.	[A] Staff Adjusted Income Stmt without Surcharge, Loan Principal & Interest	[B] Adjustments	REF	[C] Staff Adjusted Income Stmt with Surcharge, Loan Principal & Interest	
1	INCOME STATEMENT				
2					
3	Operating Revenue				
4	Metered Water Revenue	\$ 549,886	\$ -	\$ 549,886	
5	WIFA Loan Surcharge	\$ -	\$ 40,682 A	\$ 40,682	
6	Other Water Revenues	\$ -	\$ -	\$ -	
7	Total Operating Rev:	\$ 549,886	\$ 40,682	\$ 590,568	
8					
9	Operating Expenses				
10	601 Salaries and Wages	\$ 122,742	\$ -	\$ 122,742	
11	610 Purchased Water	\$ -	\$ -	\$ -	
12	615 Purchased Power	\$ 101,314	\$ -	\$ 101,314	
13	618 Chemicals	\$ 523	\$ -	\$ 523	
14	620 Repairs and Maintenance	\$ 23,012	\$ -	\$ 23,012	
15	621 Office Supplies & Expense	\$ 15,307	\$ -	\$ 15,307	
16	630 Contractual Services	\$ 82,750	\$ -	\$ 82,750	
17	635 Water Testing	\$ 1,080	\$ -	\$ 1,080	
18	641 Rents	\$ 5,678	\$ -	\$ 5,678	
19	650 Transportation Expenses	\$ 32,584	\$ -	\$ 32,584	
20	657 Insurance - General Liability	\$ 8,654	\$ -	\$ 8,654	
21	666 Regulatory Comm Exp - Rate Case	\$ 4,387	\$ -	\$ 4,387	
22	675 Miscellaneous Expense	\$ -	\$ -	\$ -	
23	403 Depreciation Expense	\$ 9,579	\$ 11,609 B	\$ 21,188	
24	408 Taxes Other Than Income	\$ 44,037	\$ -	\$ 44,037	
25	408.11 Property Taxes	\$ 28,562	\$ -	\$ 28,562	
26	409 Income Tax	\$ 16,061	\$ 6,628 C	\$ 22,688	
27	Total Operating Expense	\$ 496,270	\$ 18,236	\$ 514,506	
28					
29	Operating Income	\$ 53,616	\$ 22,445	\$ 76,062	
30					
31	Interest Income	\$ -	\$ -	\$ -	
32	Interest Expense on Long-term debt	\$ -	\$ 18,182 D	\$ 18,182	
33	Total Other Interest Expense	\$ -	\$ (18,182)	\$ (18,182)	
34					
35	Net Income	\$ 53,616	\$ 4,263	\$ 57,880	
36					
42					
43	Principal Repayment	\$ -	\$ 10,196 E	\$ 10,196	
44	Debt Reserve Annual Payment	\$ -	\$ 5,676 F	\$ 5,676	
45	Principal & Debt Reserve Payment	\$ -	\$ 15,872	\$ 15,872	
46					
47	Cash Flow (L 23 + L 35 - L 45)	\$ 63,195	\$ (0)	\$ 63,195	
48					
49	TIER				
50	Before Tax [L 26 + L 29] + L 32	Not Meaningful		5.43	
51	Before Tax [L 26 + L 29] + L 32	Not Meaningful		4.18	
52	DSC				
53	Before Tax [L 18 + L 26 + L 29] + [L 32 + L 45]	Not Meaningful		4.23	
54	After Tax [L 18 + L 26 + L 29] + [L 32 + L 45] WIFA	Not Meaningful		3.43	
55					
56	Short-term Debt	\$ -	0%	\$ 28,508	3.2%
57	Long-term Debt	\$ -	0%	\$ 870,998	96.8%
58	Common Equity	\$ -	0%	\$ -	0.0%
59	Total Capital	\$ -	0.0%	\$ 899,506	100.0%
60					

A - See Sch CSB-3, page 1, Step 9
B - (\$259,800 x 3.33%) + (\$91,150 x 3.33%)
C - See Sch CSB-3, page 1, Step 6
D - See Sch CSB-3, page 1, Step 2
E - See Sch CSB-3, page 1, Step 3
F - See Sch CSB-3, page 1, Step 7

Line No.	WIFA LOAN SURCHARGE CALCULATION - EXAMPLE				
1	Loan Amount:	\$350,950			
2	Term:	20 Years			
3	Interest Rate Before Subsidy	5.25%			
4	WIFA Subsidy Rate:	100%			
5	WIFA Interest rate :	5.25%	If interest rate is not found on TABLE A, use the next highest percentage		
6					
7	Step 1 - Find the Annual Payment on Loan				
8	\$350,950	Total Amount of Loan			
9	0.0809	TABLE A, Conversion Factor Table, Column B			
10	\$28,378.27	Annual Principle and Interest Payment			
11					
12	Step 2 - Find the Annual Interest Payment on Loan				
13	\$350,950	Total Amount of Loan			
14	0.0518	TABLE A, Conversion Factor Table, Column C			
15	\$18,181.84	Annual Interest Payment on Debt			
16					
17	Step 3 - Find the Annual Principal Payment on Loan				
18	\$350,950	Total Amount of Loan			
19	0.0291	TABLE A, Conversion Factor Table, Column D			
20	\$10,196.43	Annual Principal and Interest Payment			
21					
22	Step 4 - Find the Gross Revenue Conversion Factor				
23	1.649996016				
24					
25	Step 5 - Find the Incremental Income Tax Factor				
26	1.65000	minus 1 =	0.65000		
27					
28	Step 6 - Find the Annual Income Tax Component of Surcharge Revenue				
29	0.65000	Incremental Income Tax Factor (from Step 5)			
30	\$10,196.43	Multiplied by: Annual Principal Payment on Loan (from Step 3)			
31	\$6,627.64	Annual Income Tax Component of the Annual Surcharge Revenue			
32					
33	Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue				
34	\$28,378.27	Annual Interest and Principal Payments on the Loan (from Step 1)			
35	20%	Multiplied by: One-fifth of Annual Principal and Interest Payment			
36	\$5,675.65	Debt Reserve Component of the Annual Surcharge Revenue for first five years			
37					
38	Step 8 - Find the Debt Service Component of the Annual Surcharge Revenue				
39	\$18,181.84	Annual Interest Payment on Debt (from Step 2)			
40	\$10,196.43	Plus: Annual Principal Payment (from Step 3)			
41	\$28,378.27	Debt Service Component of the Annual Surcharge Revenue			
42					
43	Step 9 - Find the Annual Surcharge Revenue Requirement Needed for the Loan				
44	\$6,627.64	Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)			
45	\$28,378.27	Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 8)			
46	\$5,675.65	Plus: Annual Reserve Fund Deposit (from Step 7)			
47	\$40,681.57	Total Annual Surcharge Revenue Requirement for the Loan			
48					
49	Step 10 - Find the Equivalent Bills For All Customers EXCEPT VALLEY VISTA PROPERTY OWNERS ASSOCIATION				
50					
51	All Customers Except Valley Vista Customers				
52	Col A	Col B	Col C	Col D	Col E
53					
54	Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
55	5/8"x 3/4" Meter	1	0	12	-
56	3/4" Meter	1.5	915	12	16,470
57	1" Meter	2.5	5	12	150
58	1 1/2" Meter	5	0	12	-
59	2" Meter	8	0	12	-
60	3" Meter	15	0	12	-
61	4" Meter	0	0	12	-
62	6" Meter	50	1	12	600
63			921		17,220
64					
65					
66	Step 11 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers				
67	\$23,147.81	Total Annual Surcharge Revenue Requirement (\$40,681.57 x 56.9% Consistent with Decision No. 74835, page 51, lines 10-14)			
68	17,220	Divided by: Total Number of Equivalent Bills			
69	\$ 1.34	Monthly Surcharge for 5/8 x 3/4" Customers			
70					
71	Step 12 - Find the Monthly Surcharge for the Remaining Meter Size Customers				
72	Surcharge for all Customers EXCEPT VALLEY VISTA CUSTOMERS				
73	Col A	Col B	Col C	Col D	
74					
75	Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C	
76	5/8"x 3/4" Meter	1	\$ 1.34	\$ 1.34	
77	3/4" Meter	1.5	\$ 1.34	\$ 2.02	
78	1" Meter	2.5	\$ 1.34	\$ 3.36	
79	1 1/2" Meter	5	\$ 1.34	\$ 6.72	
80	2" Meter	8	\$ 1.34	\$ 10.75	
81	3" Meter	15	\$ 1.34	\$ 20.16	
82	4" Meter	25	\$ 1.34	\$ 33.61	
83	6" Meter	50	\$ 1.34	\$ 67.21	
84					

Line No. WIFA LOAN SURCHARGE CALCULATION - EXAMPLE CONTINUED

Step 13 - Find the Equivalent Bills For All VALLEY VISTA CUSTOMERS EXCEPT 4-INCH & 6-INCH

Valley Vista Property Owners Association

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	0	12	-
3/4" Meter	1.5	1	12	18
1" Meter	2.5	0	12	-
1½" Meter	5	0	12	-
2" Meter	8	2	12	192
3" Meter	15	0	12	-
4" Meter	0	1	12	-
6" Meter	0	1	12	-
		<u>5</u>		<u>210</u>

Step 14 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$2,522.26 Total Annual Surcharge Revenue Requirement (\$40,681.57 x 6.2% Consistent with Decision No. 74835, page 51, lines 10-14)

210 Divided by: Total Number of Equivalent Bills

\$ 12.01 Monthly Surcharge for 5/8 x 3/4" Customers

Equivalent Bills For Valley Vista Customers EXCEPT 4" & 6" Customers

Col A	Col B	Col C	Col D
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	\$ 12.01	\$ 12.01
3/4" Meter	1.5	\$ 12.01	\$ 18.02
1" Meter	2.5	\$ 12.01	\$ 30.03
1½" Meter	5	\$ 12.01	\$ 60.05
2" Meter	8	\$ 12.01	\$ 96.09
3" Meter	15	\$ 12.01	\$ 180.16
4" Meter	25	\$ -	\$ -
6" Meter	50	\$ -	\$ -

Step 15 - Find the Equivalent Bills For VALLEY VISTA'S 4-INCH & 6-INCH METERED CUSTOMERS

Equivalent Bills For Valley Vista 4" & 6" Customers

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	0	12	-
3/4" Meter	0	1	12	-
1" Meter	2.5	0	12	-
1½" Meter	5	0	12	-
2" Meter	0	2	12	-
3" Meter	15	0	12	-
4" Meter	25	1	12	300
6" Meter	50	1	12	600
		<u>5</u>		<u>900</u>

Step 16 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$15,011.50 Total Annual Surcharge Revenue Requirement (\$40,681.57 x 36.9% Consistent with Decision No. 74835, page 51, lines 10-14)

900 Divided by: Total Number of Equivalent Bills

\$ 16.68 Monthly Surcharge for 5/8 x 3/4" Customers

Surcharge For Valley Vista 4" & 6" Customers

Col A	Col B	Col C	Col D
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	\$ -	\$ -
3/4" Meter	1.5	\$ -	\$ -
1" Meter	2.5	\$ -	\$ -
1½" Meter	5	\$ -	\$ -
2" Meter	8	\$ -	\$ -
3" Meter	15	\$ -	\$ -
4" Meter	25	\$ 16.68	\$ 416.99
6" Meter	50	\$ 16.68	\$ 833.97

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

	Column A	Column B	Column C	Column D
	Annual Interest	Annual Payment	Annual Interest Payment	Annual Principal Payment
Line No.		Conversion Factor	Conversion Factor	Conversion Factor
1	3.50%	0.0696	0.0344	0.0352
2	3.75%	0.0711	0.0369	0.0342
3	4.00%	0.0727	0.0394	0.0333
4	4.25%	0.0743	0.0419	0.0324
5	4.50%	0.0759	0.0444	0.0316
6	4.75%	0.0775	0.0468	0.0307
7	5.00%	0.0792	0.0493	0.0299
8	5.25%	0.0809	0.0518	0.0291
9	5.50%	0.0825	0.0543	0.0283
10	5.75%	0.0843	0.0568	0.0275
11	6.00%	0.0860	0.0593	0.0267
12	6.25%	0.0877	0.0618	0.0259
13	6.50%	0.0895	0.0643	0.0252
14	6.75%	0.0912	0.0668	0.0245
15	7.00%	0.0930	0.0692	0.0238
16	7.25%	0.0948	0.0717	0.0231
17	7.50%	0.0967	0.0742	0.0224
18	7.75%	0.0985	0.0767	0.0218
19	8.00%	0.1004	0.0792	0.0211

MEMORANDUM

DATE: December 29, 2015

TO: Crystal Brown
Executive Consultant III

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: Truxton Canyon Water Company
Application for Financing Approval
Docket No. W-02168A-15-0369

Introduction and Background

On October 30, 2015, Truxton Canyon Water Company ("Truxton" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting authorization to incur long term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA") in an amount of \$100,815 ("Financing Application"). Proceeds from the loan would be used to fund the construction of a building for an arsenic treatment plant.

The Company owns and operates a water system ("System") that consists of five active wells, 580,000 gallons of storage capacity and a distribution system. The Company also owns three inactive wells and one inactive 20,000 gallon storage tank. Arizona Department of Environmental Quality ("ADEQ") regulates the System under the Public Water System Identification ("PWS") No. 08-035. The Company served approximately 950 metered customers in 2014; the majority of which were residential. The Company is in the process of installing an arsenic treatment plant which will be located in the proposed building.

Proposed Project and Engineering Cost Estimates

Proceeds from the WIFA loan would be used to fund the construction of the proposed improvements at the arsenic treatment plant site. The improvements include (1) the construction of an aluminum metal framed building; and (2) site preparation.

The table below lists the Company's proposed plant additions and associated cost estimates and Staff's recommended adjustments.

Table 1. Proposed Project and its Estimated Costs

Description	Company's estimated costs (\$)	Staff's Recommended Adjustments (\$)	Staff's Recommended costs (\$)
A manufactured 24' x 36' x 16' metal frame	43,500		43,500 ⁴

Building (including roof, wall, one main door, one overhead door) including labor expense			
24' x 36' concrete slab for the building (including labor expense)	7,800		7,800 ⁴
Power (temporary supply)	5,000		5,000
Permit	1,500	+4,000 ¹	5,500
Site grading	8,200		8,200 ⁴
Electrical (including power line extension, control panel)	4,500	-4,500 ²	0
subtotal	70,500	-500	70,000
Contingency	14,100		14,100
Legal/Administration fee (5%)	3,525		3,525
Engineering fee (structure engineering) - 5%	3,525		3,525
Contractor's Overhead (10%)	9,165	-9,165 ³	0
Totals	100,815	-9,665	91,150

Note: 1. In a subsequent filing the Company informed Staff that a new approval to construct for the arsenic treatment plant will be needed at a cost of \$4,000.
2. Item and its costs have been approved in Decision No. 74835.
3. Staff believes that the Contractor's Overhead is accounted for in the Contingency expense.
4. The cost includes Davis Bacon wages.

Staff concludes that the cost estimates listed in Table 1 as adjusted by Staff are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

Staff recommends the Commission adopt Staff's total cost of \$91,150 as listed in Table 1 for the proposed project. Staff further recommends that if a new Certificate of Approval to Construct ("ATC") is issued by ADEQ for the arsenic treatment plant that the Company submit a copy as a compliance item in this docket within 45 days of the ATC's issuance.

ADEQ Compliance Status

ADEQ regulates the water system operated by Truxton under ADEQ Public Water System ("PWS") ID No. 08-035. According to the ADEQ Drinking Water Compliance Status Report, dated April 1, 2015, the Truxton system has major deficiencies in operation and monitoring due to the reasons listed below and ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

- (1) Arsenic: The arsenic level exceeds its maximum contaminant level of 10 ppb. Truxton failed to submit an Approval of Construction for installation of the required treatment system by December 1, 2012.
- (2) Maximum Residual Disinfection Level: ADEQ has questions regarding the sampling procedure and/or sampling equipment used.
- (3) Disinfection Byproducts Stage 1 and Stage 2: There are deficiencies for this monitoring requirement.

ACC Compliance Status

A check of the Commission's Utilities Division Compliance Section database indicated that there are two delinquent compliance items for Truxton¹ (per status check dated December 2, 2015).

Arizona Department of Water Resources ("ADWR") Compliance Status

Truxton is not located in any Active Management Area ("AMA") as designated by ADWR, and is not subject to AMA reporting and conservation rules. Staff received an ADWR compliance status report dated November 3, 2015, in which ADWR reported that it has determined that this water system is currently compliant with departmental requirements governing water providers and/or community water systems.

Conclusions and Recommendations

1. A check of the Commission's Utilities Division Compliance Section database indicated that there are two delinquent compliance items for Truxton (per status check dated December 2, 2015).
2. ADEQ has reported that the Truxton system has major deficiencies in operation and monitoring and ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

¹ The Company is delinquent on completing needed system improvements.

3. ADWR has reported that Truxton is currently compliant with departmental requirements governing water providers and/or community water systems.
4. Staff concludes that the cost estimates listed in Table 1 as adjusted by Staff are reasonable. However, no "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.
5. Staff recommends the Commission adopt Staff's total cost of \$91,150 as listed in Table 1 for the proposed project.
6. Staff further recommends that if a new Certificate of Approval to Construct ("ATC") is issued by ADEQ for the arsenic treatment plant that the Company submit a copy as a compliance item in this docket within 45 days of its issuance.